Controller's Quarterly

California Economic Challenges

Kathleen Connell, California State Controller

December 1996

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Message From State Controller
Kathleen Connell

As we prepare to enter the 21st Century, the single most important fiscal challenge confronting our state is welfare reform. This edition of the *Controller's Quarterly* focuses on what I term "Chapter Two" of reform: the job-creation component. Enactment of the new federal law restructuring the welfare system was Chapter One. Thousands of Californians will be required to make the transition from welfare to work, making it crucial that our state has the capacity to expand its jobs base. We can turn this challenge of the new millennium into an opportunity to strengthen and secure California's future.

To assist policymakers at the federal, state, and local level in developing California's welfare-to-work strategy, I convened the Work Opportunity Response Commission. This bipartisan panel of experts — representing private business, labor, and county and state officials — met over a period of eight weeks to consider the unique challenges facing our state and make recommendations. Following publication of its recommendations earlier this month, the Commission was dissolved. The key issues debated by the Commission included:

- Job training and apprenticeship to provide people with marketable skills;
- Tax incentives to encourage the involvement of the business sector; and
- Support services needed to facilitate the transition from welfare to work.

These issues are discussed in greater detail in our overview article on the job-creation component of welfare reform. Additional analysis is provided by our guest authors in this edition of the *Quarterly*, who address such concerns as overcoming employer reluctance to hire welfare recipients and ensuring that the working poor are not disadvantaged by welfare reform efforts.

Converting the welfare system from benefits distribution to job placement is an opportunity to strengthen the state's economy through aggressive job creation. Our success will depend on the commitment, creativity, and involvement by taxpayers as well as elected officials. The result will be a California that is prepared to meet the competitive challenges of the 21st Century.

KATHLEEN CONNELL
Controller
State of California

December 1996

California Economy

Controller's Outlook

The National Outlook

Economic growth, as measured by real Gross Domestic Product (GDP), slowed in the third quarter of 1996. The second quarter increase of 4.7% was followed by a third quarter increase of 2.0%. The slowdown was expected and even welcomed by most economists because it reduced the likelihood of a move by the Federal Reserve to raise interest rates. Two factors appeared to account for most of the decline in GDP: a slowdown in personal consumption expenditures and a deceleration of government spending, particularly by the federal government. Among the indications that the slowdown will spill over into the fourth quarter were October's falling consumer confidence index, a slowdown in the manufacturing sector, and subdued job growth.

Since August, job growth has been at roughly half the rate of the first eight months of the year. In November, the unemployment rate increased to 5.4% from the year's low of 5.1%, which occurred in August.

For American workers, the good news is that personal income growth in the second quarter was strong, rising at almost twice the rate of consumer prices. Third quarter figures will not be out until January 1997, but indications of rising wages in most regions of the nation, as noted in the Federal Reserve's October Beige Book, point to continued growth of real incomes through the rest of the year.

The California Outlook

The current economic outlook for California is the best in more than six years. The Controller's Council of Economic Advisors continue their optimistic outlook for the California economy. The Council expects jobs to grow by 2.7% in 1996 and for unemployment to average 7.4%. The only area where the Council is less optimistic is for building permits; recent months indicate it is unlikely that residential building permits will exceed 100,000 in 1996. The Council projects average personal income growth will be 6.1%. The State Controller's outlook is for job growth to be 2.7% in 1996, personal income growth to be 6.5%, and residential construction to reach 100,000 permits.

Employment Growth

The state is producing jobs at a higher rate than the nation as a whole, and the unemployment rate is falling. By November 1995 the state had replaced the 500,000 jobs lost during the 1990-93 recession; by September 1996 employment in the state was almost 300,000 jobs above the 1990 peak. Figures 2 and 3 compare the growth of employment nationally and in California in the most recent eight quarters. The slowdown in the national rate and the continued expansion of the California economy is evident in these charts.

In October 1996, 319,500 jobs, or 2.5%, were gained compared to October 1995. The number of unemployed Californians fell by 39,000 persons from September to October. Seasonally adjusted employment increased by 25,700 jobs, a 0.2% increase over September. Government hiring accounted for 12,600 of these jobs (49%), with 13,100 in the private sector. The upswing in government jobs is primarily due to education hiring. The private sector gains have slowed

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Figure 1

1996 Forecast by Controller's Council of Economic Advisors

Council Member	Employment Growth (Annual %)	Unemployment (Annual %)	Personal Income Growth (Annual %)	Res. Building Permits (Thou)
LA Economic Devt. Corp. (J. Kyser)	2.4%	7.2%	6.4%	94
Calif. Assn. of Realtors (G.U. Krueger)	2.8%	7.6%	6.0%	103
UCLA, Business Forecasting Project (L. Kimbell)	2.9%	7.4%	7.5%	97
UC Berkeley, Center for Real Estate and Urban Economics (C. Kroll)	2.5%	7.2%	6.0%	98
Bank of America (J.O. Wilson)	2.7%	7.5%	6.6%	95
Pacific Gas & Electric (T. Munroe)	2.6%	7.3%	5.6%	95
ARCO (A. Finizza)	3.0%	7.4%	4.5%	120
Mean	**2.7%**	**7.4%**	**6.1%**	**100**
Median	**2.7%**	**7.4%**	**6.0%**	**97**
State Controller	**2.7%**	**7.3%**	**6.5%**	**100**
1995 Actual	**2.3%**	**7.8%**	**6.2%**	**85**

Source: State Controller's Office; Council of Economic Advisors

Figure 2

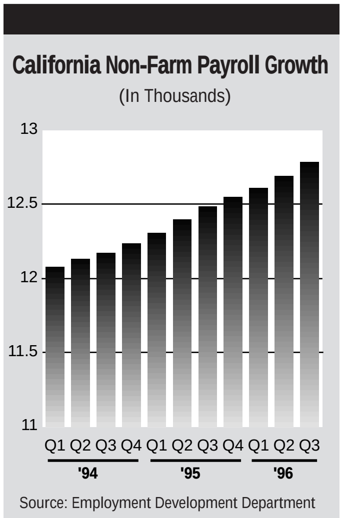
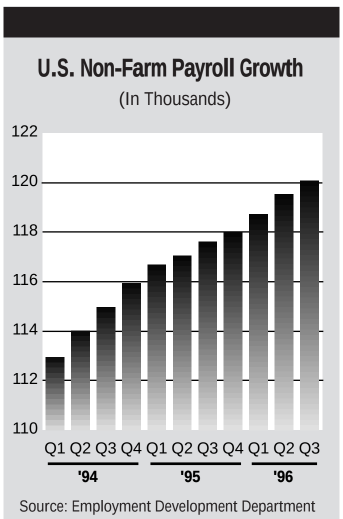


Figure 3



somewhat, but growth remains strong.

Although the state's unemployment rate remains high compared to the nation, it has been dropping rapidly over the past two years. The unemployment rate dropped to 6.9% in October of 1996, marking the first time the rate has been below 7% since December 1990. Unemployment rates may remain higher than the national average over the next two years, but that will be partially driven by people re-entering the labor force. As higher proportions of Californians enter the labor force, per capita income and tax revenue growth should continue to be strong in the state.

Real Estate

The lack of jobs that triggered the out-migration of workers over the past five years has undoubtedly dampened the recovery of the housing industry in California. Population growth in California is typically higher than for the nation as a whole. As a consequence of the recession in the first three years of this decade, population growth in California has dropped to about 1% annually, paralleling the national rate. It is important to note that all growth in the past four years is due to natural increase (the excess of births over deaths). Population growth from a natural increase does not produce the stimulant to the housing industry that migration of young families to the state provides. This slow household growth not only contributed to falling real estate prices, it also helps account for the lack of new construction. In response to the growth of jobs in the past 18 months, out-migration appears to be turning around. This will be beneficial not only to the growth of employment in construction, but to other sectors as well.

Residential Construction

In the first six months of 1996, it appeared that residential building permits might exceed 100,000 units for the first time since 1991. As feared, however, the rise in interest rates that began in March kept a damper on residential construction, and it now appears unlikely that permits will exceed 100,000 units in 1996. While construction in the first nine months of this year is up 11.1% over the same period last year, permits in the fourth quarter of this year would have to rise 36% above the 1995 fourth quarter to exceed the 100,000 level.

Of the major urban areas, Los Angeles and San Diego are seeing the smallest improvements in construction, while the San Jose area is experiencing robust growth (permits this year are more than double the number issued last year). Figure 4 compares growth of residential construction in the eight largest metropolitan areas in the state.

Personal Income

California historically has been a high-income state. The recent recession caused a sharp drop in per capita income in the state relative to the nation. It should be noted, however, that there has also been a longer-term downward trend in California's income position relative to the nation. In 1960, per capita income in California was 123.5% of the national average. In 1990, before the recession was truly underway, per capita income in California had dropped to 110.6% of the national average. By 1994, it had reached a low of 103%. In 1995, California rebounded to 105% of the national level.

Personal income growth in the first and second quarters of 1996 continued to be strong in California. Over the next 18 months, personal income should get an additional boost from changes in the minimum wage. The federal minimum wage was increased to $4.75 per hour in October 1996 and will increase again, to $5.15 per hour, in September 1997. In addition, with the passage of Proposition 210, California's minimum-wage workers will see an increase in their wages to $5.00 per hour in March 1997 and to $5.75 per hour in March 1998. While probably fewer than 15% of California's workers will be affected by these changes in the minimum wage, it will serve to boost personal income over the next two years.

Figure 4

Growth in Residential Permits Issued

(Jan-Sept 1996 vs. Jan-Sept 1995)

Area:	% Change:
Los Angeles	5.60
Oakland	15.90
Orange	14.80
Riverside-SB	20.10
Sacramento	21.90
San Francisco	25.00
San Diego	-1.80
San Jose	110.40

Source: Construction Industry Research Board

Welfare Reform

The Challenge of Creating Jobs

The welfare reform legislation passed by the 104th Congress puts a lifetime limit of five years on cash benefits for all welfare recipients and generally requires able-bodied adult recipients to move into work activities within two years. The new law will have a particularly heavy impact in California, where 21% of the nation's AFDC recipients live.

For welfare reform to succeed, a significant number of new jobs will need to be created to accommodate the increased number of welfare recipients seeking employment. Strategies for shifting these individuals from the welfare rolls to the workforce must take a number of factors into account. How can tax incentives be used to encourage the private sector to hire more welfare recipients? How should the state and county governments divide responsibility for implementing the new law? What type of job placement and training programs will best achieve the long-term goal of individual self-sufficiency? Besides employment opportunities, what other issues must be addressed to assure welfare recipients remain in the workforce, such as child care and transportation needs?

These are just a few of the difficult issues California policymakers will confront as they design a new welfare system. It is crucial that taxpayers also participate in this public dialogue since the decisions that are made will have far-reaching impacts on the economy.

Incentives to Stimulate New Jobs

A federal tax credit has been proposed to provide employers with incentives to hire welfare recipients. The proposal would give employers a 50% credit on the first $10,000 in wages for every welfare recipient they hire. However, many of California's businesses would not be eligible for the credit. California's economy is driven by a larger number of small businesses. Most firms in this state (97%) employ fewer than 200 people. For the 40% of these businesses that incur annual net operating losses, the federal tax credit does not provide any benefit.

To ensure the tax credit provides the intended stimulus in California, it needs to be expanded. One way would be to allow companies that incur net losses to receive a tax refund up to 50% of the credit amount or a maximum of $2,500 per eligible employee. Employers also could be given the option of a 3-year carryback or 15-year carryforward of the full credit amount. For businesses that incur a tax liability that is less than the credit amount, they also could be allowed to carryback or carryforward the unused balance of the credit.

California also should consider enacting a comparable welfare-to-work tax credit equal to one-third of the federal credit. A state-level credit should utilize federal eligibility and compliance standards.

"A federal tax credit has been proposed to provide employers with incentives to hire welfare recipients…Most firms in this state (97%) employ fewer than 200 people. For the 40% of these businesses that incur annual net operating losses, the federal tax credit does not provide any benefit. "

Figure 1

California's Unemployment Rate By County

County	Unemployment	County	Unemployment	County	Unemployment
Alameda	5.2	Marin	3.4	San Mateo	3.5
Alpine	15.8	Mariposa	5.6	Santa Barbara	5.6
Amador	5.6	Mendocino	7.2	Santa Clara	3.8
Butte	7.6	Merced	11.9	Santa Cruz	6.0
Calaveras	8.1	Modoc	8.5	Shasta	8.3
Colusa	12.1	Mono	10.8	Sierra	5.7
Contra Costa	5.0	Monterey	6.9	Siskiyou	11.0
Del Norte	8.4	Napa	5.1	Solano	7.3
El Dorado	5.7	Nevada	5.9	Sonoma	4.1
Fresno	10.8	Orange	4.2	Stanislaus	11.1
Glenn	12.1	Placer	5.1	Sutter	11.2
Humboldt	6.4	Plumas	6.9	Tehama	8.3
Imperial	33.3	Riverside	9.1	Trinity	11.3
Inyo	7.5	Sacramento	5.8	Tulare	14.8
Kern	11.6	San Benito	8.7	Tuolumne	8.2
Kings	10.6	San Bernardino	7.2	Ventura	8.2
Lake	10.0	San Diego	5.4	Yolo	4.6
Lassen	7.3	San Francisco	4.8	Yuba	12.0
Los Angeles	7.6	San Joaquin	8.7		
Madera	11.1	San Luis Obispo	5.4	**State Total**	**6.8**

Source: EDD Monthly Labor Force Data September 1996

"Some of the highest unemployment rates in the state are in rural counties. Many of these counties also have the state's highest welfare caseloads. These areas will be hard-pressed to expand their jobs base to accommodate the hiring of welfare recipients."

This would help streamline the process, making it more likely that smaller businesses without an accounting staff would participate.

Any tax credit proposals that are implemented must protect against misuse by employers who may attempt to replace existing employees with welfare recipients.

Achieving Federal Employment Goals

The federal law requires each state to move a specified percentage of its welfare population from welfare to work, beginning in July 1997. Failure to meet these targets would result in a reduction in the state's federal welfare block grant. For a state like California, with 58 counties in varying economic circumstances, meeting these requirements statewide will be particularly challenging.

Some of the highest unemployment rates in the state are in rural counties (Figure 1). Many of these counties also have the state's highest welfare caseloads (Figure 2). These areas will be hard-pressed to expand their jobs base to accommodate the hiring of welfare recipients.

The State will need to require counties to meet a statewide standard for moving welfare recipients off the rolls to avoid loss of federal block grant funds. However, policymakers also must decide how these regional economic variations will be taken into consideration when setting this standard.

The "Work First" Approach

Many private sector firms in the business of placing no-skill or low-skill workers in jobs have found that a "work first" approach is the best way to ensure long-term success. This may be an appropriate model for the welfare-to-work transition since many welfare recipients lack job skills and experience. The work-first approach emphasizes the need to instill a work ethic, achieved by placing individuals in a real, wage-paying jobs. This teaches them the importance of personal responsibility and the rewards it brings. Training can and should take place after the worker is hired to assure the individual develops the skills that will be needed to be successful in a competitive job market.

Developing Local Solutions

The new federal law eliminates Aid to Families with Dependent Children (AFDC), the centerpiece of the 60-year-old welfare system, and replaces it with a new block grant program. Decisions regarding expenditure of block grant funds are left to the states, with minimal federal guidance. It would be appropriate for California to adopt a similar approach with respect to its counties by allowing local officials and community leaders to decide how best to shift welfare recipients to jobs.

County-level solutions can be tailored to meet the specific needs of the community. Partnerships involving local businesses, community colleges, private sector relief agencies, and others should be encouraged. This flexibility can be complemented by technical assistance from the State, which could provide the county with models of successful programs being utilized elsewhere to put welfare recipients to work and provide additional training.

Other Key Issues

California's typical welfare family is composed of a single mother with two young children. To make a successful transition to the workforce, these single parents will need to be able to find affordable child care for their children. An additional challenge will be finding this child care during weekends and "swing shifts," which many new entrants to the workforce will encounter. Transportation to and from work is another hurdle that must be overcome.

Providing assistance in these and other areas will be needed to ensure newly employed welfare recipients remain in the workforce. Use of an electronic benefits transfer (EBT) system would be one way to more efficiently provide certain support services. Similar to an ATM card, an EBT card issued in the name of an eligible recipient could be used to distribute funds for child care and Food Stamps. The federal funds already provided for these benefits could be directly deposited in individual accounts and monitored by county officials. A proven technology, an EBT system holds great promise for reducing administrative costs so that funds can be focused on actual assistance.

(These and other issues related to the jobs component of welfare reform were addressed by a special commission convened by the State Controller. The 21-member Work Opportunity Response Commission released its recommendations in a December 1996 report. To obtain a copy, please contact the State Controller's Office.)

Figure 2

California's AFDC Caseload By County

County	Total Population	AFDC Recipients	%on AFDC	Adults as % of AFDC Pop.
Alameda	1,356,100	98,602	7.3%	33.0%
Alpine	1,180	124	10.5%	29.0%
Amador	34,000	1,000	2.9%	35.5%
Butte	197,000	22,911	11.6%	34.5%
Calaveras	36,950	2,455	6.6%	35.9%
Colusa	17,950	1,043	5.8%	33.5%
Contra Costa	870,700	45,450	5.2%	33.2%
Del Norte	28,650	3,619	12.6%	34.2%
El Dorado	144,900	5,724	4.0%	36.7%
Fresno	760,900	113,969	15.0%	27.9%
Glenn	26,600	2,505	9.4%	30.1%
Humboldt	125,500	11,169	8.9%	35.3%
Imperial	140,100	21,553	15.4%	34.6%
Inyo	18,550	1,169	6.3%	37.6%
Kern	624,700	74,099	11.9%	30.2%
Kings	118,900	11,964	10.1%	30.9%
Lake	55,300	7,180	13.0%	36.0%
Lassen	31,050	2,682	8.6%	35.9%
Los Angeles	9,369,800	871,713	9.3%	29.7%
Madera	108,900	12,517	11.5%	30.6%
Marin	239,500	3,973	1.7%	35.4%
Mariposa	16,050	1,098	6.8%	37.3%
Mendocino	84,500	7,883	9.3%	36.1%
Merced	198,500	36,434	18.4%	31.5%
Modoc	10,150	1,174	11.6%	36.1%
Mono	10,600	286	2.7%	34.3%
Monterey	364,500	23,829	6.5%	31.1%
Napa	119,000	3,912	3.3%	34.3%
Nevada	87,000	3,203	3.7%	34.7%
Orange	2,624,300	113,090	4.3%	32.9%
Placer	206,000	8025	3.9%	35.1%
Plumas	20,450	1,284	6.3%	35.8%
Riverside	1,381,900	107,989	7.8%	30.3%
Sacramento	1,123,400	146,304	13.0%	32.7%
San Benito	43,350	2,878	6.6%	35.3%
San Bernardino	1,589,500	185,996	11.7%	31.4%
San Diego	2,690,300	185,464	6.9%	32.0%
San Francisco	755,300	33,070	4.4%	35.9%
San Joaquin	529,300	69,648	13.2%	30.0%
San Luis Obispo	232,400	9,585	4.1%	35.4%
San Mateo	691,500	15,520	2.2%	29.9%
Santa Barbara	394,600	18,740	4.8%	32.7%
Santa Clara	1,612,300	79,260	4.9%	32.6%
Santa Cruz	243,000	10,779	4.4%	34.6%
Shasta	161,600	18,088	11.2%	35.5%
Sierra	3,390	142	4.2%	39.4%
Siskiyou	44,600	4,799	10.8%	36.5%
Solano	373,100	24,802	6.7%	33.8%
Sonoma	421,500	17,581	4.2%	34.6%
Stanislaus	415,300	47,989	11.6%	32.2%
Sutter	74,100	5,541	7.5%	10.3%
Tehama	54,400	5,640	10.4%	33.9%
Trinity	13,400	1,233	9.2%	34.7%
Tulare	351,500	54,178	15.4%	30.5%
Tuolumne	52,700	3,533	6.7%	37.7%
Ventura	716,100	28,416	4.0%	31.7%
Yolo	152,100	12,702	8.4%	34.5%
Yuba	62,200	10,993	17.7%	28.8%
Total	**31,786,570**	**2,616,509**	**8.2%**	**31.2%**

Source: CA Department of Social Services, Research Branch/AFDC-Information Services Bureau, June 1996

How Can We Make Welfare Reform Work For California

By Jean Ross
Executive Director,
California Budget Project

When President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (H.R. 3734, “welfare reform”), he initiated the most significant overhaul of social policy of the past 60 years. Over the next year, Californians and their leaders must decide how the state will implement the new federal welfare reform measure. Implementation of welfare reform presents many challenges and some opportunities to restructure the safety net into a system that more effectively moves poor families toward self-sufficiency.

Fundamental Policy Changes Posed By Welfare Reform

H.R. 3734 combines funding for the old programs Aid to Families for Dependent Children (AFDC), Emergency Assistance, and Job Opportunities and Basic Skills (Greater Avenues for Independence, or GAIN, in California) into a block grant for Temporary Assistance to Needy Families (TANF). Under a block grant, states receive a fixed allocation of federal dollars that will not increase, with minimal exceptions, if an economic downturn pushes caseloads upward. Conversely, if caseloads fall, states can use TANF funds for expanding the range of services available to targeted populations. In addition, under the old system, funds received for cash assistance (welfare grants) could not be used for any other purpose. Under the new law, states have broad latitude to determine how assistance is provided and to transfer funds between different uses. For example, states have increased flexibility to allocate funds between cash assistance paid directly to families, job training, and child care. States are also allowed to reduce their own spending for assistance to a specified “maintenance of effort” level without losing federal dollars.

Welfare reform aims to move the current system toward a work-based system. States must assure that a significant portion of those who receive federally funded assistance are working or are engaged in a work-related activity. Those that fail risk losing a portion of their federal funds. Adult recipients of assistance are required to work after two years and face a 60-month lifetime limit on assistance. In addition, states now have broad discretion to limit assistance to certain categories of families or to provide assistance in the form of vouchers or services. However, states can opt to provide continued assistance using their own funds and, indeed, can choose to maintain assistance to any or all families regardless of the restrictions contained in the federal law.

Fiscal Demands

The second major feature of the federal welfare reform measure is a range of federal spending cuts achieved primarily through limitations on eligibility for benefits and reductions in benefit levels. In sum, these reductions will reduce federal spending by over $54 billion between 1997 and 2002. Nearly 90% of these savings result from reductions in the Food Stamp program and by restrictions on legal immigrants’ eligibility for federally funded benefits. California’s share of these reductions will be $8.7 billion, according to the state Legislative Analysts Office. During the same period, California will receive $1.9 billion in additional funding for TANF and child care programs than it would have under the prior law, for a net loss to the state of $6.8 billion over six years.

Welfare reform’s provisions affecting legal immigrants will have a particularly severe impact on California, which is home to approximately 40% of the nation’s immigrants. The brunt of the cuts affect the SSI/SSP program, which provides cash assistance to the elderly, blind, and disabled. As many as 250,000 Californians will lose eligibility for SSI/SSP under the new law, becoming eligible for county-funded General Assistance at much lower benefit levels. Some 300,000 to 400,000 legal immigrants will also lose Food Stamps and other federally funded means-tested benefits.

The combination of these federal spending reductions and policy changes will place significant and competing demands on the state and local governments for a diminished pool of resources. Over the next year, lawmakers will be forced to make tough choices between investing in programs aimed at assisting welfare recipients to

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find and sustain employment and restoring lost federal dollars in order to maintain benefits for those who lose eligibility due to federal policy changes, particularly legal immigrants.

Ending Welfare As We Know It

For the last four years, public debate has focused on the pros and cons of "ending welfare as we know it." We have heard little about the need to end poverty as we know it. If welfare reform is to succeed at moving families towards self-sufficiency and out of poverty, three questions must be addressed: 1) are there jobs for those who will become subject to welfare reform's time limits; 2) do the skills and education of those on welfare reform match those of the jobs that are available; and 3) do the available jobs provide sufficient income and benefits to insure that families are not forced to live in poverty.

Unfortunately, the evidence suggests that, for many, the answer to these questions may be no.

Are There Enough Jobs?

The basic premise behind welfare reform is that those who rely on welfare choose not to work, that jobs are readily available, and that the goal of reform is to push families off assistance and into the workforce. Despite the current strength of the economy, it is unclear whether sufficient jobs are available for the nearly one million adults who need to work under the new measure. Unemployment in California still far outstrips the rest of the U.S. In September 1996, unemployment in California was 7.0%, compared to 5.2% nationally, corresponding to 1.1 million Californians actively looking for work. In addition, the Employment Development Department estimates there are a million "discouraged workers" and nearly a half a million part-time workers that want to work additional hours.

Matching Welfare Recipients To Jobs

A second unanswered question is whether the skill and education levels of the welfare population match the characteristics of available employment opportunities. The answer here is yes and no. The Bureau of Labor Statistics estimates that 60% of the jobs created in the U.S. over the next decade require no more than a high school degree and minimal or no on-the-job training. The California economy is creating a large number of low-skill jobs in food services, retail sales, and similar occupations. Given the competition for jobs, however, it is less clear that employers will hire individuals leaving welfare for work over other job seekers, such as the recently unemployed or high school graduates.

Many current welfare recipients face serious impediments to workforce participation. Half lack a high school degree and nearly a third report a serious health problem or disability. Those with recent work experience, a high school degree, or specialized skills are likely to find employment with relatively little assistance. Long-term recipients, who will be most effected by the new law, will need the more intensive support in order to successfully transition into the workforce.

What Lies Ahead?

Most of the jobs available to those leaving welfare are not "good jobs at good wages." Two factors contribute to the poor earnings prospect of welfare recipients that leave welfare for work. As reported in the May 1996 *Controller's Quarterly*, the largest numbers of new jobs are concentrated at the lower end of the wage spectrum. Even the most successful programs at moving welfare recipients into the workforce show little success at moving them out of poverty. For example, the researchers that evaluated the Riverside County GAIN program found that over two-thirds of those that obtained work through the program found jobs that paid less than $10,000 per year, and only 28% found jobs that provided health coverage. While the recent increases in the minimum wage are a good start, a family of three with a full-time earner working for $5.75 an hour would live just above the poverty line even on a bare-bones budget. This is the case even taking into account eligibility for the federal Earned Income Tax Credit (Figure 1).

Where Does This Leave Us?

Unless carefully constructed, there is a serious danger that reform efforts will simply increase competition between welfare recipients and the working poor for scarce jobs, putting downward pressure on low-wage labor markets. Without adequate support for California's low-wage workforce, welfare reform is likely, at best, to create a growing number of working poor families while decreasing the number of non-working poor.

A broad, work-based anti-poverty agenda should combine efforts to increase the earnings of low-wage workers with the benefits and services needed to

"Unless carefully constructed, there is a serious danger that reform efforts will simply increase competition between welfare recipients and the working poor for scarce jobs, putting downward pressure on low-wage labor markets."

“We must be willing to find innovative ways to assist those with barriers to workforce participation learn the skills they will need to find a job, keep that job, and move on to a better job.”

enable families to work. These include supporting low-income families with child and health care so they are not forced to leave a job to obtain health care or due to lack of quality, accessible child care. While costly, a state Earned Income Tax Credit, patterned after the federal credit, would boost the earnings of the working poor. Similarly, strategies that combine earnings from work with a reduced welfare grant can help families make the transition to self-sufficiency.

We must be willing to find innovative ways to assist those with barriers to workforce participation learn the skills they will need to find a job, keep that job, and move on to a better job. Unless we implement such an agenda, we will find that welfare reform succeeds at ending welfare as we know it, but fails dismally at the more important task of ending poverty as we know it.

[California Budget Project is a nonprofit, nonpartisan organization dedicated to research, policy analysis, and public education on state tax and budget issues.]

Figure 1

Welfare-to-Work Income Needs of the Average AFDC Family in California (Single Parent with Two Children)

Expenditures	Monthly Costs	Annual Costs	Bare Bones[1] Monthly	Bare Bones Annual
Housing and Utilities	$827	$9,924	$668	$8,016
Basic Phone Service	$12	$144	$12	$144
Food at Home	$337	$4,041	$337	$4,041
Food Away from Home	$80	$960		$0
Diapers	$100	$1,200	$100	$1,200
Clothing	$25	$300	$15	$180
Medical	$177	$2,129	$177	$2,129
Savings, Emergency	$60	$720		$0
Transportation	$65	$780	$65	$780
Child Care	$605	$7,263	$385	$4,623
Recreation, Education, Reading	$20	$240		$0
Personal Care	$25	$300	$25	$300
Miscellaneous	$20	$240		$0
Total Commodities	**$2,353**	**$28,241**	**$1,784**	**$21,413**

SAMPLE EARNINGS AND TAXES FOR FULL-TIME WORKER	Monthly	Annual
Earning $5.75/hour	$997	$11,960
Payroll Tax (FICA & SDI) @ $5.75/hour	$86	$1,035
EITC for full-time worker earning $5.75/hour w/ 2 children	$290	$3,482
Total	**$1,201**	**$14,408**

1996 FMR for a 2-bedroom in California is $787, 1-bedroom is $628. Plus $40 monthly utilities.
Food at home based on USDA low-cost plan (second lowest) for parent with one child <2 yrs and one child between 6-8 years (September 1996).
1996 full-time child care costs for one child <2 yrs and part-time for one child >=6 years old in Sacramento County, from California Child Care Resource and Referral Network (assumes 2nd child is in school part of day).
Medical is lowest cost program for medical insurance for one employee plus dependent(s) in the HIPC (N.CA), does not include copayments for doctors visits or prescriptions.
Transportation costs assume travel by public transport, monthly Regional Transit pass for one adult and one youth.

[1]Bare bones budget eliminates some expenditures, assumes a one-bedroom apartment, and includes child care for only one child.

Source: California Budget Project — November 1996

California's GAIN Program In Riverside County

By Larry Townsend
Vice President,
Maximus Inc.

Long before the federal government became serious about welfare reform, Riverside County was hard at work planning for the inevitable day in which the responsibility for taking care of its welfare population fell in the laps of local agencies. As former director of the Department of Social Services in Riverside County, I had the privilege of directing a program—Greater Avenues for Independence, or GAIN—that evolved into a model now being used successfully in shortening welfare lines throughout the nation.

We started from the beginning in 1987 by agreeing that the best method of assisting welfare recipients was to facilitate their immediate placement into unsubsidized employment. The decision to use a "work first" prototype was based on the belief that work is development, is educational, is employment socialization, and is beneficial in situations where children look to their parents for positive employment role models. Getting people into the workplace rather than placing them in expensive training programs provided welfare recipients with exposure to new technology skills and discovery of personal abilities they never suspected they had.

Converting our agency from a traditional benefits distribution point to a job placement center was essential to accomplishing our goal. The first step to achieving large-scale, effective, work-centered employment programs for AFDC recipients was to convince the department's staff about the importance of the work-first model. That mission was made part of the organization's culture. It was imperative for staff in direct contact with welfare recipients to have a genuine belief in the benefits of work first. If that belief was genuine, the recipients would accept it, and they would be successful in securing employment.

Once staff was committed to the work-first approach, the next move was to activate the program. The program focused on removing only those critical barriers that interfered with job placement. For example, we did enough remedial education to the point where a client could be successful on the job in basic communications and basic math at the 9th grade level, the criteria for most entry-level jobs. Our goal was to insure the skill level of the client met or exceeded the minimum requirement for getting and keeping the job in which he or she was placed.

We operated on the premise of minimizing the period of time the client was active in the GAIN program prior to job placement. That kept our costs for job placement down and meant we could serve every GAIN-eligible participant which, for a while, made us the only county in the state capable of serving all our clients.

According to the state statistics, Riverside County's GAIN program provided 100 job placements at the same cost that some counties spent to get only four people into jobs. In one county, it cost $252,000 per job placement, while Riverside County's placements cost about $1,400. Riverside County had approximately 4% of the AFDC population; through its GAIN program, it achieved 19.7% of all job placements statewide. According to Manpower Research Corporation, we had achieved a reduction of government expenditures of $2.84 for every GAIN dollar we spent.

The basic concept from which we worked was that we did not want a lifetime relationship with the clients. The people in our office were convinced that their obligation was to service their clients, so it was absolutely imperative that we make our funds go further.

The "Work First" Commitment

The message to Riverside County's GAIN managers and staff was strong and unequivocal. Their responsibility was to assist AFDC clients in getting a job. We made the number of placements of AFDC clients in jobs a critical element of staff's monthly job performance evaluation.

The emphasis on employment is found throughout Riverside's GAIN program. Orientation focuses on the expectation that all clients will become employed. The Job Club is designed as a training ground to help clients understand the benefits of working, how to look for and apply for a job, and how to sell themselves. Job Search is designed as a working laboratory where cli-

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ents apply what they learn in Job Club. Clients who are in basic education or training understand they are there to improve their skill level so they can effectively enter the job market.

All GAIN clients are required to actively participate in an appropriate GAIN program component. That message is delivered by Riverside County's GAIN staff in a variety of ways. The seriousness of the responsibility to their families is discussed with the client. The progress of the client is closely monitored. Immediate and timely action, sometimes resulting in financial sanctions, is taken to ensure the client's cooperation. Funding levels inadequate to ensure this approach could lead to a less successful program.

Rather than rely solely on other agencies to identify potential job placements, Riverside GAIN staff is aggressively involved in locating job vacancies and recruiting employers. This effort includes marketing the GAIN program with prospective employers and providing services to those employers which make it more appealing to hire GAIN clients.

"The vast majority of the welfare recipients in California want to work and have amazing potential and abilities. They need positive, prompt, and effective employment assistance, not long-term paternalism, to become self-sufficient."

Shattering Myths

In creating the work-first model program, we destroyed several myths that had hindered previous efforts to reform the system. Examples of these myths include:

- Long-term welfare recipients can only be freed from welfare as the result of extended counseling, education, and training, possibly for as long as five years.
- More welfare recipients may be placed in jobs when unemployment is low.
- AFDC recipients are more successful in securing employment if provided vocational training and/or extended education.
- Job retention is substantially improved if the individual is highly trained and educated.
- Lower caseloads for employment counselors are more cost effective and result in higher placement rates.

What Works

The success of Riverside's GAIN program suggests a need to reexamine our beliefs based on the following concepts that we discovered actually work:

- Employment-focused welfare programs can be cost effective.
- Lower counselor employment caseloads do not get better results.
- Long-term welfare recipients do not require lengthy and costly programs to enter employment.
- An employment-focused program can be successful across a variety of ethnic groups.
- Employment success is more easily reached and more cost effective with single-parent AFDC families than with two-parent families.
- The most successful AFDC employment programs to date have not totally eliminated the need for a program similar to AFDC.

We also discovered that a mandatory program realizes a higher participation rate and better employment results. Some clients need to be sanctioned to engage them in the employment process. Our experience also showed that funds spent on individual clients for training and education will not be cost beneficial for a five-year period and possibly longer.

A positive, motivational curriculum in life skills, employment job readiness, and job search instruction allow a low-cost employment program utilizing remedial education for those below the 9th-grade level in math and reading to produce 50% job placements in the first 30 days of the program. Placement of the majority of the remainder can be done in approximately five months.

The Continuing Challenge

Job placement rates in California have increased dramatically in the last several years. Counties are administering their programs more effectively, but improvement in bottom-line job placement results is needed to protect recipients from the potential damage of welfare time limits. Under federal block grants, California can afford to move existing AFDC funds to the GAIN program when they are operated in a cost-effective manner. The vast majority of the welfare recipients in California want to work and have amazing potential and abilities. They need positive, prompt, and effective employment assistance, not long-term paternalism, to become self-sufficient. After more than 60 years of increasing welfare dependency, now is the best chance that California has ever had to assist the poor to become self-sufficient. Let's not miss this valuable opportunity.

Investing In People

By John Tobin
Director
Applied Technologies,
Siemens Corporation

Albert Hoser, Siemens Chief Executive Officer, believes that corporate America has a responsibility to positively influence the climate among employers who are attempting to balance the need for bottom-line profitability with the need to improve the quality of life for all Americans. This article describes some of the pacesetting programs developed by Siemens as part of its continuing involvement in Workforce Development policy.

Siemens is an active and visible participant particularly in the areas of incumbent worker upgrade training, new worker training, and the development of national industry-driven standards for all workers. The development of workforce through the upgrading of existing elementary, secondary, and post-secondary institutions is one of the results of our activities in School to Work (STW) and education reform. Driving public institutions to upgrade their activities helps meet our business needs and produces better overall service delivery to school system customers. The STW movement, which places a high value on quality work-based learning, must be a true partnership between schools and employers. While a wonderful program, Siemens has found that this system is difficult to sell to employers below the level of Fortune 500 types. Even then, some companies are only marginally involved.

Job Training Cost Benefits

We have developed the beginnings of a "business case" which can show bottom-line increased profitability and return on investment from workforce training. Within the same skill sets, we have found the lowest-cost training is STW at the high school level. The second most costly training is at the community college level. The most costly level of training is to the incumbent worker. The more senior a worker, the more costly the training.

The first lesson we draw from our experience is that it is a better investment to train early. Since many of the costs of secondary education and training are already included in our tax-based expenditures, the money invested in incumbent worker training could bring workers to higher, globally benchmarked standards if it were not necessary to work on basic skills and key qualifications within this group.

A second lesson is that it costs less to fully train a technician in a high school/community college ("2 plus 2") work-based learning program than it costs to train a two-year associate degree technician who comes to our company without work-based learning in our programs.

A "2 plus 2" student enters the workforce able to fully produce at a total four-year company investment of $22,000- $24,000. An associate-degree technician without work-based learning costs about $32,000 to train to approximately the same level of competence.

By investing in education, training, and work-based learning, we see a savings of at least $8,000 per trainee over a four-year period. We think this is a strong "business case" for long-term investment by business and industry in workforce training.

Working with Welfare Reform

An area of concern by government at all levels is the kind of involvement that business should have as we move to change public assistance.

The management team of any business has the responsibility to run a profitable organization. Investment in workforce development must yield a return which results in continued profitability and potential to grow the business. How can the hiring and training of people coming off welfare, and possibly having a history of being on public assistance for upwards of five years, help improve business?

The biggest concern expressed by corporate executives is that the welfare-to-work debate not further confuse both government and business as workforce development policies are reshaped. We must avoid creating transition activities which are so distractive from the focus of business that attention to maintaining our global competitiveness is diminished.

There are three general categories of people being asked to enter the workforce if our economy can spark development of enough jobs:

- Those who are job ready and need limited help to become

"It befits legislators to develop policies that identify categories of recipients and provide incentives for businesses that assume risk by working with the more difficult populations."

employed;

- Those with more extensive training who, with assistance, can be made job ready;
- Those in extreme circumstances who are socially, emotionally, and mentally challenged.

"It is useful to be candid about the training of our most difficult to prepare — the traditionally unemployed and under-employed coming off welfare after years of dependence. Training this group involves risk and additional costs to any company."

Making Changes

It befits legislators to develop policies that identify categories of recipients and provide incentives for businesses that assume risk by working with the more difficult populations. To begin addressing the changes in public assistance programs, Siemens is actively recruiting students for its STW programs from ethnic, racial, immigrant, and gender groups that traditionally are under-educated and under-represented in training for high-value jobs. We are talking to partners in high schools, community colleges, and community groups about being more proactive in recruiting the children of welfare families to our youth programs. We also are increasing efforts to provide training to the disabled, who frequently have ended up on the welfare rolls.

Corporations should be encouraged to work with state agencies to identify workers who cycle on and off welfare due to seasonal occupations. These workers, who have a basic work ethic and understand the value of work, can become full-time contributors to America's economic growth, if given the proper training.

To continue to grow and influence American competitiveness in a positive manner, we need the following:

1. Stronger connection between employment service offices and corporate America. We have jobs, but there frequently is a disconnect in identifying candidates who meet the entry requirements for specific jobs.
2. Once employment service knows what jobs are available, they need to ensure the skills required for those jobs are available.
3. Training should be accomplished while a person is on public assistance, so as not to deprive the individual of a means to survive.
4. Skills training must start with an understanding of "key qualifications." A worker under key qualifications must understand the need to be on time, to dress and be groomed appropriately, to appear regularly, and to accept responsibility.

Key training also must include such skills as technical math, reading, and writing; social skills, such as interpersonal relations and communications; and basic informational skills, such as those involved in thinking and reasoning.

Siemens invests in "human capital" because it makes good bottom-line business sense. We truly believe the cost of *not* training will be higher than the cost of training. It is useful to be candid about the training of our most difficult to prepare — the traditionally unemployed and under-employed coming off welfare after years of dependence. Training this group involves risk and additional costs to any company. Therefore, consideration might be given to corporations which hire, even as temporary employees, citizens coming off public assistance who have been trained by that company. Such consideration might include tax incentives as well as preference or points on bids for government contracts, grant proposals and government programs which help offset company training costs for this population.

The demands on our workforce to build, maintain, and service higher quality products while remaining cost competitive are increasing exponentially. We must have an intelligent workforce, trained to the highest internationally benchmarked levels. Yet we face a severe drought of quality workforce who can meet the demands of competition, even at entry level.

A wide range of activities is necessary to have a system which can truly help communities move public assistance clients into real jobs. The use of these funds must be flexible enough to allow local groups to find job opportunities in the non-profit, public, and private sectors. These problems must be confronted by employers from all sectors of the economy. While finding and filling jobs is one aspect of the solution, funds must also be made available to assist companies with job development, wage supplement programs, and public sector employment accountability.

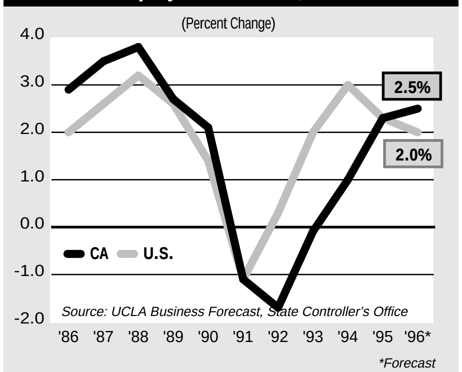
Other issues that must be addressed by policy and in practice include accountability and potential displacement of workers. Individuals must be able to perform adequately at measurable job-related levels. Employers must provide paid employment for specific periods of time to fully recover public funding that is focused on training for the workplace.

Finally, we must encourage workers to become active participants in the teaching and learning process. They must understand that "lifelong learning" is their best defense against returning to public assistance.

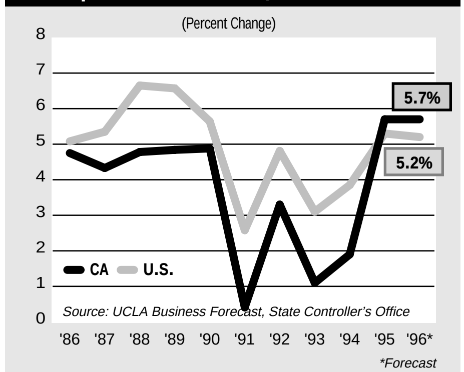
Facts and Figures

Important Information About California

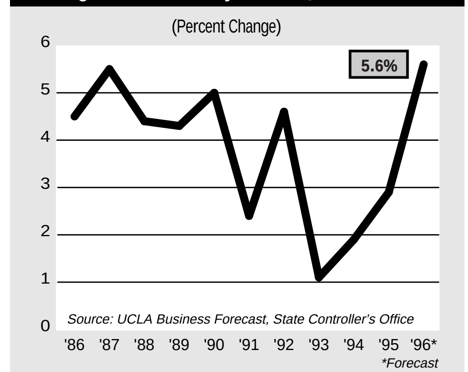
Non-farm Employment Growth, CA vs U.S.



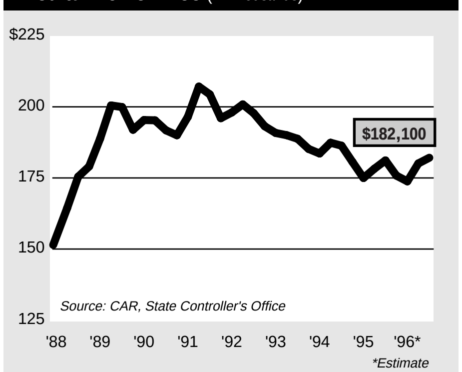
Per Capita Income Growth, CA vs U.S.



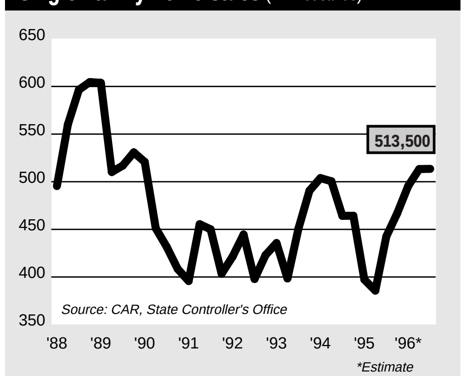
Average Annual Salary Growth, CA



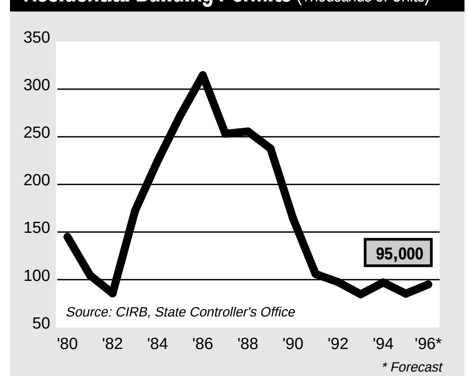
Median Home Price (In Thousands)



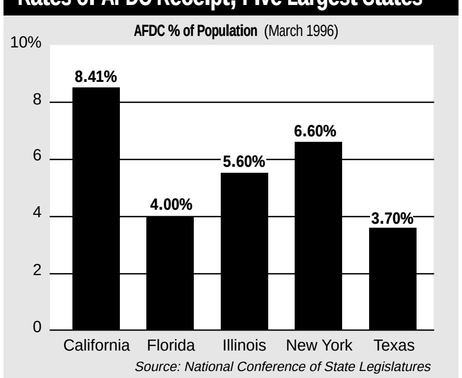
Single Family Home Sales (In Thousands)



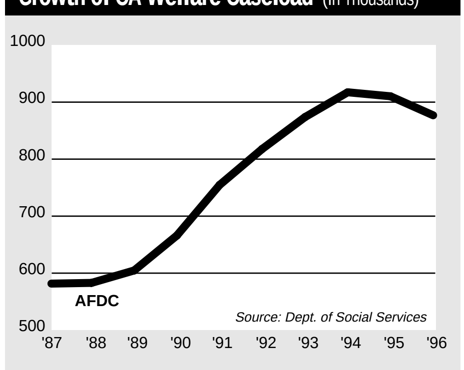
Residential Building Permits (Thousands of Units)



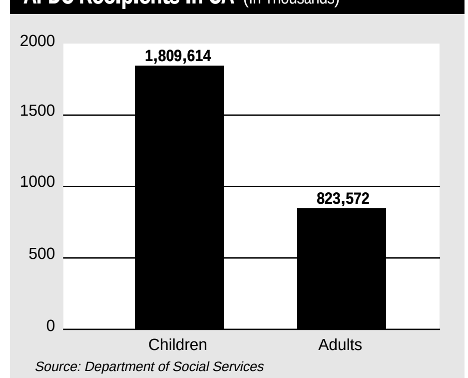
Rates of AFDC Receipt, Five Largest States



Growth of CA Welfare Caseload (In Thousands)



AFDC Recipients in CA (In Thousands)



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